



COMMISSION NEWS

Arizona Corporation Commission

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ACC APPROVES MODEST INCREASE TO APS RATES

Decision caps 29 days of hearing, 5 days of Debate in Open Meeting

PHOENIX – In possibly the longest open meeting in Commission history, the increase sought by APS was pared back to approximately 5.7 percent on summer bills and about 3.5 percent on winter bills.¹ Because APS has a variety of rate plans and customer options, individual experience will vary.

The Commissioners sought and received assurances that APS would improve its business practices, trim its costs, increase reliability at the Palo Verde Nuclear Generating Station and protect needy ratepayers from bearing the burden of the increase.

“It is my objective to keep APS as a healthy, vibrant company, consistent with our Constitutional duty, while minimizing the rate increase,” Chairman Mike Gleason said of his vote.

“APS will have to be lean and more productive to stay profitable under this order,”

Commissioner Jeff Hatch-Miller said. “We made major changes to how APS recovers the costs of providing a reliable electricity supply. We protected low income customers and others on fixed incomes. We adopted an order that ensures ratepayers are treated fairly with APS being able to earn a fair and reasonable rate of return.”

¹ APS has a variety of rate plans and options. This example is based on the E-12 rate plan and energy use of 800 kilowatt hours in the summer and 800 kilowatt hours in the winter. These rates go into effect July 1 and before then more precise calculations will be made. APS typically quotes a weighted annual average use of 1160 kWh multiplied by an average of all rate plans and options. Using this methodology, today’s decision results in a comprehensive retail average of about 6.8 percent.

Commissioners intensely debated nearly 30 amendments designed to modify the April 27, 2007 recommendation by the Arizona Corporation Commission's (ACC's) Chief Administrative Law Judge, Lyn Farmer. Ten of the amendments passed.

Keeping APS in a healthy enough position to attract investment capital at reasonable rates while the company deals with unprecedented growth was central to this case. The Commissioners debated how to structure rates so that APS can continue providing reliable, affordable service. APS testified that it is the nation's fastest growing utility.

"Growth should pay its own way. APS needs to bring this Commission a proposal that addresses its cash flow concerns in a way that does not result in current ratepayers subsidizing future ratepayers," Commissioner Gary Pierce said. "With today's decision, the Commission has clearly resolved APS' cash flow concerns. If APS enters junk bond status, the first five names that come to investors' minds should be those of APS management, not the Commissioners."

Citing a series of management missteps by APS, Commissioner Kris Mayes vowed to keep a close focus on APS and its decision making.

"In recent years, the people of Arizona tell me they have lost faith in APS. APS needs to build back that trust. We received thousands of letters, calls and emails from customers expressing frustration over a company that seems more interested in pursuing rate increases than improving its performance," Commissioner Kris Mayes said. "Because this order grants only a modest increase, rejects APS' original request and holds APS accountable for its mistakes, I can support this order."

Significant changes were made to the way the power supply adjustor recovers prudently incurred fuel costs. A power supply adjustor is already on customer bills. The next adjustment will not take effect until February 2008 but the level of the power supply adjustment is expected to be about the same as the present fee.

Commissioner Bill Mundell sought an amendment to change the hours of APS' time of use plan. Time of use customers pay more for energy during peak hours and less in the off-peak hours. His amendment did not pass and he voted against the order.

"This order further shifts the risk from the company to ratepayers without providing real choices to customers that would allow them to lower their bills by altering their behavior. If my amendment had passed, it would have put an end to APS charging its time-of-use customers peak power prices during non-peak times," Mundell said. "The hours from nine in the morning to noon are not peak hours. That's why I voted no."

Other aspects of the Order

What did the Commissioners approve on the cost of equity issue?

The judge recommends that the Commissioners consider the approving the cost of common equity at 10.75 percent.

What is the cost of capital and return on fair value rate base?

The cost of capital would be 8.32 percent and the fair and reasonable rate of return on APS' FVRB would be 6.05 percent.

APS proposed a number of "revenue enhancements." Did the Commissioners adopt any of the proposals?

No. The Commissioners did not adopt any of APS' proposed "revenue enhancements."

There was a lot of testimony about the timely recovery of power supply costs. How did the Commissioners rule on the Power Supply Adjustor (PSA) issues?

The cost of wholesale power fluctuates day by day and hour by hour. At some points during the year, utilities must pay more to buy power than what is captured in the rate formulas. Prior to and during the hearing, two major plans emerged for handling power costs that are not recovered in rates through a Power Supply Adjustor. The adjustor could work as a credit or discount on customer bills or as a surcharge, depending on the situation.

The Commissioners amended the ALJ's recommendation on the power supply adjustor to allow the collection of approximately \$34 million in fuel costs as a part of the base rates. The first PSA adjustment will be in February 2008 but the amount of the PSA is expected to be about the same as what customers are paying in the current PSA.

Several days of hearing centered on whether outages at Palo Verde could have been prevented. How is this issue resolved?

After research and testimony by staff and the parties, the Commissioners ruled that certain outages at the Palo Verde Nuclear Generating Station in August and October 2005 could have

been avoided. The Commissioners disallowed recovery of almost \$14 million of replacement power costs. They found that the March 2005 outage was not the result of imprudence.

What about other issues surrounding the performance of the Palo Verde Nuclear plant?

Commission Staff and APS were ordered to work together to prepare a detailed Nuclear Performance Standard, together with a Plan of Administration, that can be considered in a separate proceeding. Until a Plan of Administration is in place, APS must identify all replacement power costs, as well as the amount of reduced off-system sales and lost opportunity sales margins associated with each outage for all planned and unplanned outages. Within 60 days of the conclusion of the outage, APS would be required to file reports explaining the reasons for the outage and the associated costs.

Who else participated in this case?

More than 30 companies, associations and individuals were allowed to fully participate in the litigation of this case.

In addition to the ACC staff and APS, the Commission granted full participation to: the Residential Utility Consumer Officer (RUCO); the Arizona Cogeneration Association dba Distributed Energy Association of Arizona; Comverge, Inc.; UniSource Energy Services; Western Resource Advocates; Sun City Taxpayers Association, Inc.; the Arizona Utility Investors Association; The Kroger Company; Phelps Dodge Mining Company and Arizonans for Electric Choice and Competition; the City of Scottsdale; Arizona Water Company; the Federal Executive Agencies; the Arizona Competitive Power Alliance; Mesquite Power, LLC, Southwestern Power Group II, LLC and Bowie Power Station; George Bien-Willner dba Glendale & 27th Investments, LLC; Ruth Properties, LLC; Solicito Investments, LLC and Combined Commercial, LLC; the Arizona Solar Energy Industries Association, the Vote Solar Initiative, the Greater Tucson Coalition for Solar Energy and the Annan Group; the AzAg Group; the Southwestern Energy Efficiency Project; Southwest Gas Corporation; Interwest Energy Alliance; Tammie Woody and Jim Nelson, individuals; the Arizona Interfaith Coalition on Energy; the Jewish Community of Sedona; and AARP Arizona.

By the Numbers:

- 29 days of hearing
- 5,408 pages of transcripts contained in 29 volumes
- APS presented 105 exhibits and testimony from 24 witnesses
- ACC Staff presented 50 exhibits and 11 witnesses
- RUCO presented 32 exhibits and 5 witnesses
- Combined, the other parties presented 45 exhibits and 13 witnesses
- 726 pages of post-hearing briefs
- Five days of debate in Open Meetings that began on June 13

How can I learn more about this case?

For more information about this case or the steps leading up to the release of this Recommended Opinion and Order, use the Commission's online e-Docket system. The docket number assigned to this case is: E-01345A-05-0816.

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